

Company Result

27 February 2022

UMW Holdings Berhad

BUY

Earning boosted by one-off tax allowance

Maintained

Share Price	RM3.10
Target Price	RM3.77

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
FTSE4Good Index	No
ESG Rating	N/A
Issued shares (m)	1,168.29
Market cap. (RM'm)	3621.71
52-week price Range	RM2.85--3.50
Beta (against KLCI)	1.66
3-m Average Daily Volume	0.24m
3-m Average Daily Value	RM0.73m

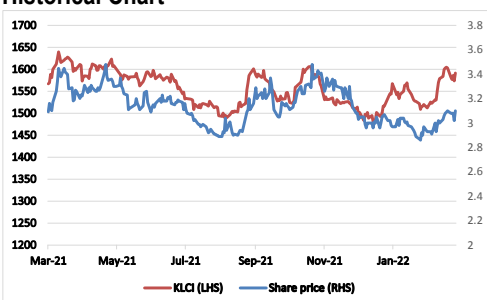
Share Performance

	1m	3m	12m
Absolute (%)	6.9	4.4	3.7
Relative (%-pts)	1.6	-5.8	2.8

Major Shareholders

	%
AMANAH SAHAM NASIONAL	53.45
EMPLOYEES PROVIDENT FUND	12.64
Kumpulan Wang Persaraan Diperbadan	8.84
ESTIMATED FREE FLOAT	28.59

Historical Chart



Source: Bloomberg

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- **UMW Holdings Berhad (UMW) posted 4Q21 revenue of RM3645.1m, +12.4% yoy and +80.8% qoq mainly driven by the higher contribution from the Automotive segment, i.e. the Toyota vehicles sales as boosted by the sales tax exemption and the introduction of new models as well as resumption of business as a result of lifting of FMCO from 16 August 2021.**
- **Beating consensus expectations due to tax allowance.** UMW recorded a core net profit of RM233.4m in their 4Q21 (vs 4Q20: profit of RM185.6m) and (vs 3Q21: net loss of RM47.7m) which took its FY21 core earnings to RM259m which beats consensus/our in-house FY21 forecasts of RM170.8m/RM168.2m. The strong earnings performance was mainly due to the higher sales from all the core segments as well as the recognition of deferred tax assets of RM140m in relation to investment tax allowance which was approved in the quarter.
- **Stellar profits contribution from Automotive segment.** PBT of Automotive segment surged 882% QoQ and 40.9% YoY thanks to the reopening of economy as well as introduction of new models and extension of tax exemption which jacked up the sales of vehicles.
- **Improvement in Equipment segment.** Revenue and profit from Equipment segment improved yoy and qoq, recording RM28.9m PBT in the quarter, +19% qoq and +56.4% yoy as the demand of Heavy and Industrial Equipment in both local and overseas markets were driven by the recovery of construction and industrial activities worldwide.
- **Manufacturing & Engineering (M&E) segment dropped YoY but grow QoQ.** The M&E segment achieved a sluggish YoY performance (PBT -48.7% YoY) which was affected by the lower demand in all sub-segments coupled with the disposal of a subsidiary (UMW Advantech) in the quarter. Conversely, on QoQ basis, the earnings grew 42.9% YoY following the business recovery post-FMCO.
- **Dividend declared.** UMW has declared a final dividend of 5.8sen/share amounting to RM67.8m in total in respect of FY21 with the ex-date on 13 April 2022.

Comment

- **UMW Toyota and Perodua sales meet our FY21 forecast (Toyota: 70k units, Perodua: 190k).** UMW Toyota achieved 72,394 units sales in FY21 which grew 22% YoY and surpassed Honda to regain the leadership of the Non-National car brand. Its associate company – Perodua recorded 190,291 units in FY21 which contracted 14% YoY mainly due to production for one of the model - Myvi which has been affected by the semiconductor chips shortage. Our sales forecast for FY22 stands at 75k units for Toyota (Management target: 73k units) and 210k units for Perodua (Management target: 247.8k units) on the back of sales tax exemption which will be ended by end of June 2022.
- **Optimistic on the rebound of Equipment segment.** We expect the positive momentum will be continued for Equipment segment, underpinned by the increase of construction and economic activities following the ease of containment measure as well as the plantation activities which has been driven by higher CPO price.
- **Remain cautious on M&E outlook amid supply chain disruption and elevated crude oil price.** The 600k TIV projection by MAA augurs well for the Auto components business, however, the supply chain disruption worldwide may affect the production. Furthermore, the elevated oil price is expected to increase the input cost of Lubricants business and lead to lower profit margin.
- **Prosperity tax expected to dent FY22 net margin.** The introduced of one-off prosperity tax in Budget 2022 by government is expected to drag UMW's bottom line. We anticipate RM20m adverse impact on the FY22 bottom line based on our RM663m PBT forecast for the Group.

Earnings Outlook/Revision

- **We revise down our FY22 earnings forecast to RM336m (RM356m previously) after taking consideration of the Prosperity Tax. Meanwhile, we introduce our FY23 earnings forecast of RM383.9m, a +14% yoy growth.**

Valuation & Recommendation

- **Maintain BUY call on UMW with a lower target price on RM3.77 (RM3.90 previously) following our earnings cut.** Our valuation is pegged at PE multiple of 13x FY22F PER with an EPS of 29 sen which is in line with its 3-year mean PER. Our fair value of the stock renders 22% upside to the current share price of RM3.10.
- **Cautiously optimistic on the prospects of the Group's performance amid some downside risks. Positive on UMW outlook as:** 1) Encouraging automotive outlook underpinned by strong demand of vehicles; 2) Expecting Equipment and M&E segments'

outlooks to further improve along with the economic recovery. **Nevertheless, the downside risks which could pose uncertainty to the Group are:** 1) Elevated oil price and prolonged supply chain issue adversely affect the M&E segment; and 2) Longer-than-expected situation of global chips shortage which hamper Automotive segment.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q21 (RMm)	3Q21 (RMm)	4Q20 (RMm)	QoQ % chg	YoY % chg	FY21 (RMm)	FY20 (RMm)	YoY % chg
Revenue	3,645.1	2,016.4	3,242.3	80.8%	12.4%	11,060.8	9,554.6	15.8%
Operating Profit	125.5	38.3	144.5	227.6%	-13.1%	274.2	257.7	6.4%
Pre-tax Profit	271.0	14.7	266.0	1747.3%	1.9%	481.0	456.3	5.4%
Profit After Tax	380.3	(9.6)	210.6	N/A	80.6%	515.6	322.9	59.7%
Net Profit	240.0	(47.9)	137.4	N/A	74.6%	268.2	204.6	31.1%
Core Profit	233.4	(47.7)	185.6	N/A	25.8%	259.0	223.4	15.9%
Margin (%)				ppts	ppts			ppts
Operating profit	3.4%	1.9%	4.5%	1.5	-1.0	2.5%	2.7%	-0.2
Profit before tax	7.4%	0.7%	8.2%	6.7	-0.8	4.3%	4.8%	-0.4
Net profit	10.4%	-0.5%	6.5%	10.9	3.9	4.7%	3.4%	1.3
Core profit	6.4%	-2.4%	5.7%	8.8	0.7	2.3%	2.3%	0.0

Source: Company, JF Apex

Figure 2: Segmental Breakdown

Year to 31 Dec	4Q21 (RMm)	3Q21 (RMm)	4Q20 (RMm)	QoQ % chg	YoY % chg	FY21 (RMm)	FY20 (RMm)	YoY % chg
Segmental Revenue								
Automotive	3,061.6	1,590.8	2,668.2	92.5%	14.7%	9,030.3	7,483.7	20.7%
Equipment	365.1	316.0	317.9	15.6%	14.8%	1,313.4	1,137.3	15.5%
M & E	225.9	110.3	244.2	104.9%	-7.5%	726.3	918.3	-20.9%
Segmental PBT								
Automotive	269.2	27.4	191.0	882.0%	40.9%	476.7	334.6	42.5%
Equipment	28.9	24.3	18.5	19.0%	56.4%	107.0	98.9	8.2%
M & E	11.7	8.2	22.7	42.9%	-48.7%	22.2	61.6	-64.0%
Segmental Margin (%)				ppts	ppts			ppts
Automotive	8.8%	1.7%	7.2%	7.1	1.6	5.3%	4.5%	0.8
Equipment	7.9%	7.7%	5.8%	0.2	2.1	8.1%	8.7%	-0.6
M & E	5.2%	7.4%	9.3%	-2.2	-4.1	3.1%	6.7%	-3.7

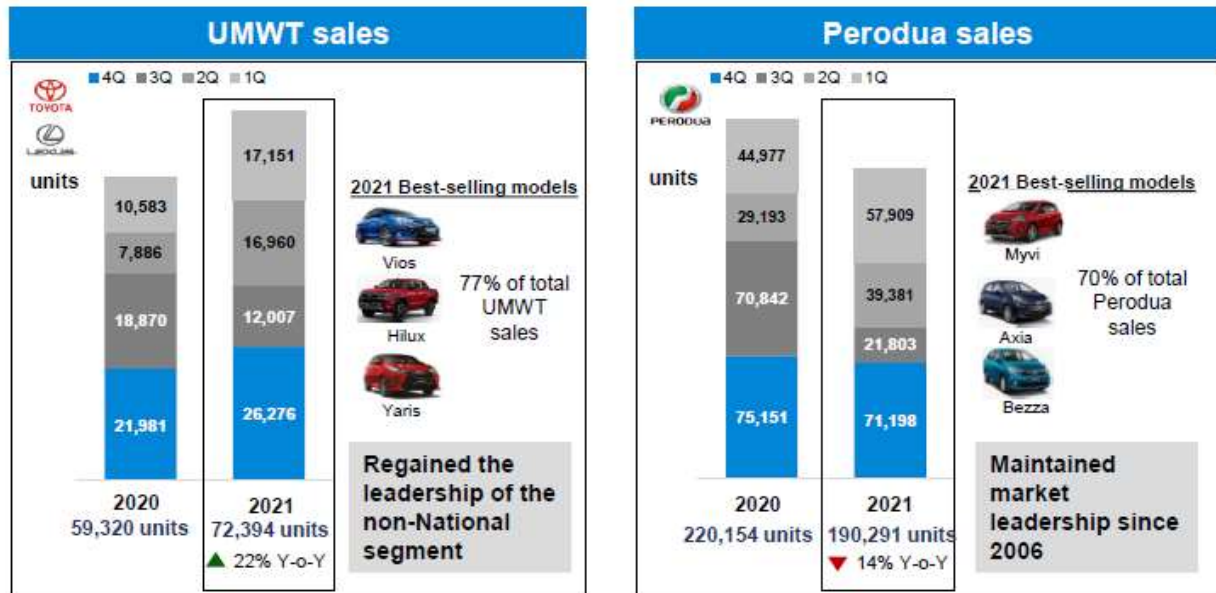
Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2017	2018	2019	2020	2021	2022F	2023F
Revenue	11,066.6	11,303.6	11,739.0	9,554.6	11,060.8	11,215.3	11,426.4
Operating profit	123.7	335.2	521.5	257.7	274.2	342.2	405.3
PBT	266.6	593.3	871.7	516.2	482.8	662.9	699.8
Net profit	(640.6)	172.9	454.5	204.6	268.2	336.0	383.9
Core profit	(85.8)	370.3	260.3	223.4	268.2	336.0	383.9
Core EPS (sen)	(0.07)	0.32	0.22	0.19	0.22	0.29	0.33
P/BV (x)	0.87	0.63	0.59	0.56	0.52	0.43	0.43
DPS (sen)	0.00	0.075	0.06	0.04	0.06	0.04	0.05
Dividend yield (%)	0.0%	2.4%	1.9%	1.3%	1.9%	1.4%	0.0%
Operating margin (%)	1.1%	3.0%	4.4%	2.7%	2.5%	3.1%	3.5%
PBT margin (%)	2.4%	5.2%	7.4%	5.4%	4.4%	5.9%	6.1%
Net profit margin (%)	-5.8%	1.5%	3.9%	2.1%	2.4%	3.0%	3.4%
Net Gearing Ratio(x)	0.7	0.5	0.4	0.5	0.6	0.7	0.0
ROE (%)	-2.1%	6.5%	4.3%	3.5%	3.7%	4.0%	0.0%
ROA (%)	-6.4%	1.6%	4.1%	1.8%	1.7%	1.8%	0.0%

Source: Company, JF Apex

Figure 4: Sales Breakdown of Automotive segment



Source: Company

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

- ☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

*capital gain + dividend yield

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